RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Oct. 23, 1996 **LETTER 1211**

CONTROL: Most of the public doesn't realize this, but the S&P futures now run the stock market. Why is this? Here's the answer: each S&P contract is now worth roughly $350,000. A professional trader's commission for a round trip (buy and sell) on an S&P option runs about $15. Now include the bid-and-asked spread and you're talking about buying and selling $350,000 worth of stocks for roughly $120.

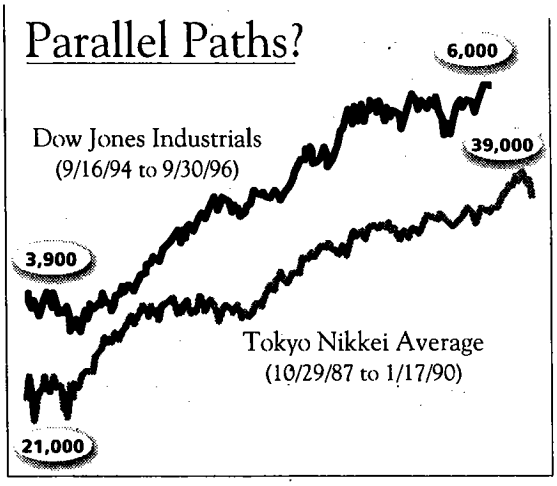
All right, let's say you want to buy and sell the same $350,000 worth of actual stocks. And let's say there's only a one-eighth bid-and-asked spread on both the buy and the sell side. And let's say you're paying only a nickel a share when you buy and another nickel when you sell. That adds up to 35 cents a share for a round trip.

Now let's say the average price of a share you're dealing with is $50. So in a $350,000 lot there are 7,000 individual shares. At 35 cents each, the cost (in and out) for $350,000 of stocks runs to **$2,450.** Compare this with a cost of **$120** for a round trip transaction on a S&P contract -- a contract which has the same value as your $350,000 worth of stocks. The difference in costs, as you can see, is HUGE.

And that's why professional traders who are bullish or bearish on the market buy or sell the S&P futures rather than buying the stocks. And that's why the S&P futures now CONTROL the stock market.

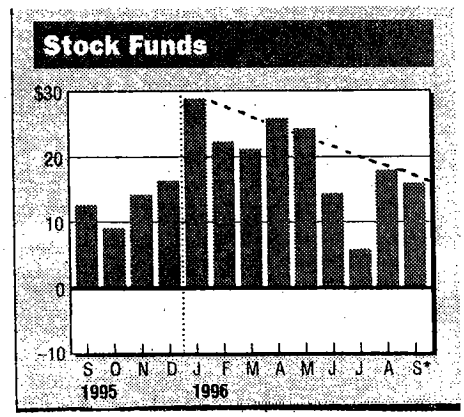
BUBBLE? The question is asked, "Has the US stock market become a 'bubble' market? And if so, is it comparable, say, to the bubble market that we saw in Japan during the '80s? The Japanese market, fed, as it was, by huge real estate inflation and massive buying by the banks and the public, was a genuine bubble. The US market has been fed by a veritable ocean of public money funneled into thousands of mutual funds. But is the US stock market a bubble market?" My answer: on a valuation basis -- yes. On market action -- maybe not yet.

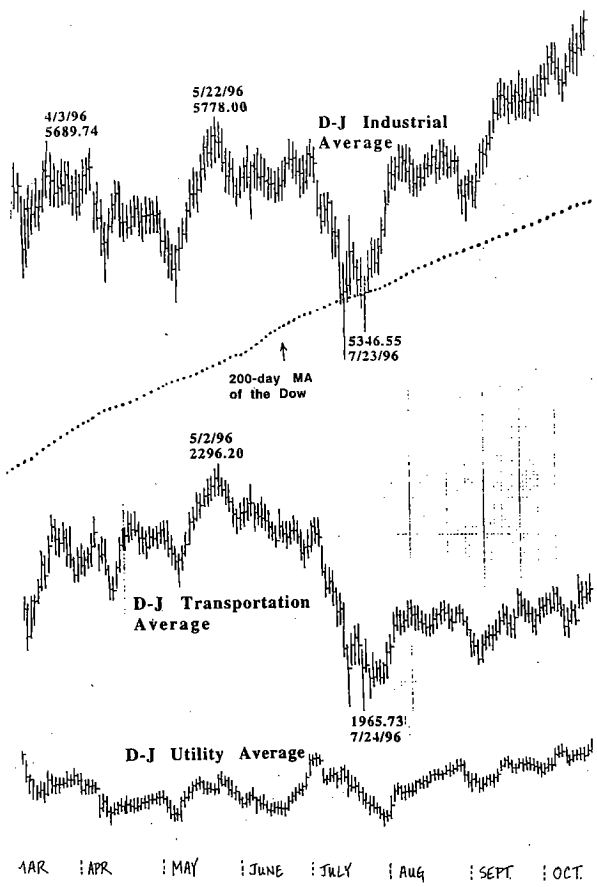
This chart from *Barron's* (Oct. 14) asks the same bubbly question. The "look" of the two averages is roughly the same. But the percentage gains (so far) are quite different. The Nikkei advanced 85.7% between 1987 and 1990. The Dow between 1994 and the present has advanced 54%.

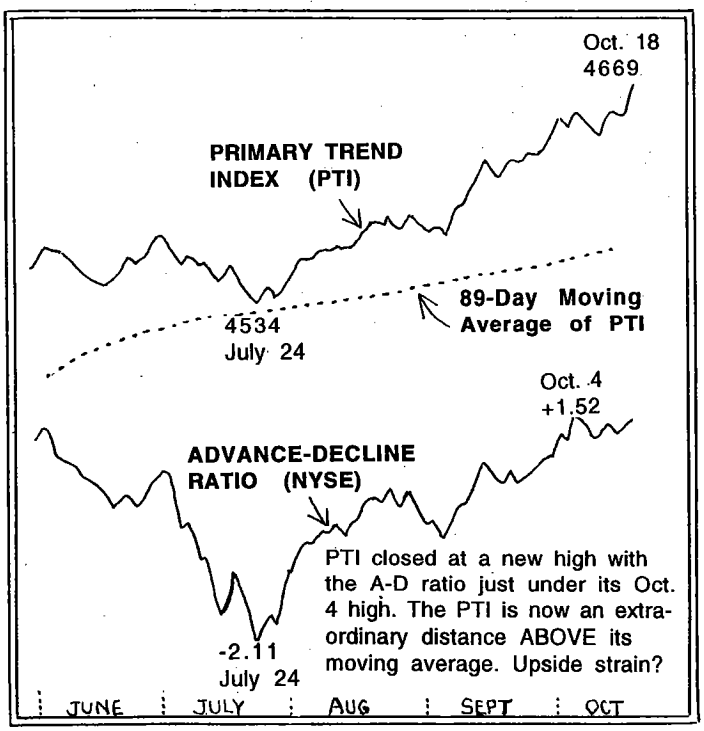


Oct. 11 DJIA 5969.38; PTI 4650; A-D Ratio +1.32
Oct. 18 DJIA 6094.23; PTI 4667; A-D Ratio +1.48
Dow Yield: 2.12%; Dow Price/Earnings: 18.6
Dow 144-day MA: 5773; Dow 34-day MA: 5964
Dow Times Book Value: 4.55; PTI 89-day MA: 4593
Percentage of Undervalued Blue-chips: 4%
Gold 200-day MA: 393.20; Gold-PTI: 324

PUBLIC: Since this market has been fed by tens of billions of public money coming into the mutual funds, it is worthwhile watching the money flow into the funds. This chart is interesting in that it shows money coming into the equity funds declining on a trend basis, at least since the January '96 high. It's a trend worth watching.







PRICE ACTION: On October 14 (Columbus Day), the Dow finally climbed above the **6000** level. The advance seemed to have satisfied the gods of Wall Street. That same morning I got a phone call from the floor of the NYSE. A puzzled Exchange member told me that the general feeling on the Floor is that the "the 28-year old fund managers have taken charge of the stock market." My answer -- maybe so, but the money they control is just as good as anyone else's money. And there's an awful lot of it. The question, of course, is -- will the money continue to come in (as per chart above)?

It makes no sense to fight the trend. The Wall Street marketplace runs on a simple system; it's called supply and demand. As long as demand is overpowering supply, then regardless of values or news or politics or anything else, prices will head higher. The fact is that there's a big difference between what the market "should be doing" vs. what the market is actually doing.

Over-valuation? Dearth of new highs? Too much speculation? Technically over-bought? Nothing will stand in the way of higher prices as long as demand continues to overpower supply. Furthermore, there's *very little selling pressure* in this market. Time after time the averages will violate a minor decline level, and the result -- nothing, no follow-up selling, no downside momentum. "If the market won't go down, it will go up." Which is exactly what's happening.

DOW THEORY: This is a classic situation. The D-J Industrial Average has moved into record high territory, while the Transports have failed by a wide margin to confirm (the Transports are nearly 200 points below their record high of **2296.20**).

PRIMARY TREND INDEX: The PTI monitors and weighs the action of eight critical "action of the market" indicators. *As long as the majority of these indicators is rising,* the PTI will be heading north and the trend of the market will be bullish. As this is written, the PTI continues to head north -- to successive new highs.

ELLIOTT: Bob Prechter in a late "Special Report" states that literally every condition now exists for the end of what he terms the "tidal wave," the great bull market that began many decades ago. States Prechter, the giant "supercycle" is now in its "terminating" ninth degree of trend. All phases and cycles of the great bull market, according to Elliott wave theory, have now been satisfied on the upside.

Russell comments: Of course, all the above is predicated on (1) the validity of the Elliott Wave thesis itself and (2) the validity of Bob Prechter's interpretations. I can only tell you this -- I know no one more intelligent or more serious of a market student than Bob Prechter. Personally, I'm fascinated to see how the whole situation (i.e., Elliott Wave theory, Dow Theory, extreme over-valuation, extreme duration) plays out.

DEFLATION? James Stack, who writes one of the most intelligent and interesting advisories [*InvestTech,* (406)862-7777], notes that there have been only two previous "disinflationary bull markets" in modern history -- the one that ended in 1929 and the one that ended in 1966. The current one is the third (and judging from the action of gold and real estate, you would have to call the 1980s and '90s disinflationary). Stack comments, "It's no coincidence that prior to recent years, the highest valuations in history occurred at the end of those two disinflation eras . . . in 1929 and the late 1960s."

Russell comment: The 1929 and 1966 tops were both followed by disastrous bear markets (I consider 1966 to 1974 to be one extended, complex bear market). The lesson would seem to be that the more extreme the bull market's over-valuation, the more severe the bear market that follows. Put this in context with the extraordinary over-valuation which characterizes today's stock market.

Stack also notes that we are now in the longest period in stock market history without at least a 13% correction in the Dow. The previous periods were **(1)** March '26 to Sept. '29 -- 3 yrs., 6 mos. without a 13% correction; **(2)** Jun. '62 to Feb. '66 -- 3 yrs., 6 mos.; **(3)** Apr. '42 to May '46 -- 4 yrs., 1 month; **(4)** Oct. '90 to the present -- **6 yrs. without a 13% correction -- unprecedented.** At this point we might remember the old Russell adage, "The market always does what it's supposed to -- BUT NEVER WHEN."

DOW 6000: This interesting table (from *USA Today*) shows how and when the Dow moved above the BIG numbers. Previous to last year's bettering of 5000, it has always taken almost four years for the Dow to hurdle a preceding "big thousand" level. Yet, during 1995 the Dow roared from 4000 to 5000 in a matter of nine months. Note, however, the percentage rise from each level was less and less. A Dow rise from 5000 to 6000 represents a rise of only 20%, compared with the difficult rise from 1000 to 2000 which entailed an advance of 100%.

Making a mark

The first Dow industrials average was published May 26, 1886, and was 40.94. It took more than 86 years to get to 1000. The Dow's 1000-point marks:

Level	Date crossed	Size of move	Mos. to get there
1000	11/14/72	2,340%	1037
2000	1/8/87	100%	170
3000	4/17/91	50%	51
4000	2/23/95	33%	46
5000	11/21/95	25%	9
6000	10/14/96	20%	11

Source: USA TODAY research

As far as the actual price action here in 1996 is concerned, it's significant (at least if you follow Dow Theory) that the D-J Transportation Average is still around 200 points below its preceding May high of **2296.20.**

As a rule, even in instances where one Average has not confirmed the other, as long as the lagging Average moves (up) in the same direction as the leader, the situation remains relatively positive. Therefore, at this point it's imperative that the Transports continue to follow the Dow in direction.

VALUATIONS: I'm almost embarrassed to keep bringing up the subject of market **valuations,** but in truth, I can't remember a period when valuations were more significant. In their latest report, my friends at *Growth Fund Guide* (Box 6600, Rapid City, SD

57709) included a fascinating piece on the history of the price-to-dividends ratio for the S&P 500 Composite. I include below a tabulation from their study.

S&P 500 P/D RATIO PEAKS ABOVE 34 TO 1

P/D Ratio Peaks		To Market High		To Market Low		
High	Date	Mos.	%	Mos.	%	Per Mo.
(1) 35	9/29	0	0.0%	32.8	-86.2%	- 2.63%
(2) 35	7/33	0	0.0%	19.9	-32.9%	- 1.65%
(3) 36	11/61	0.4	+1.9%	6.5	-28.0%	- 4.30%
(4) 35	10/65	3.3	+1.8%	7.9	-22.2%	- 2.81%
(5) 34	11/68	0	0.0%	17.9	-36.1%	- 2.01%
(6) 38	1/73	0	0.0%	20.7	-48.2%	- 2.33%
(7) 38	8/87	0	0.0%	3.3	-33.5%	-10.15%
Averages						
36			+0.5%	15.6	-41.0%	- 3.70%
Recent						
46	9/20/96	0?	0.0%?			

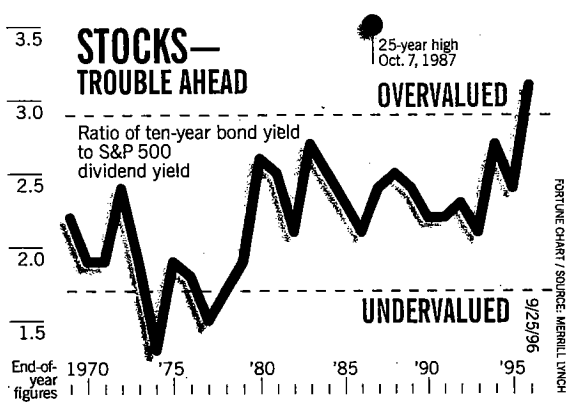
Note that up to the 1970s any time the price/dividend ratio rose to as high as 34 to 36, that level of over-valuation marked a market top, and a bear market or a severe decline followed. This held true in 1929, 1933, 1961, 1965 and 1968.

Later, in 1973 and again in 1987 the Price/Dividend rose to 38. Following the 1973 extreme, the market collapsed over the next two years. Again during 1987 the market smashed, but this time the downside was compressed over a period of a few months.

All of which brings us to the remarkable present. Currently, the Price/Dividend ratio for the S&P has risen to a *never-seen-before high of* **46.** This is 21% above 1987's Price/Dividend ratio of 38. So that's the valuation story, or I should say, the over-valuation story at this time. It's a tale worth noting.

IQ Trends of La Jolla [(619)459-3818], in their latest mailing, offers these interesting comments: *"The Blue Chip Verifier charts the percentage of Undervalued stocks in each issue since IQ Trends was founded in 1966. The number of Undervalued stocks recently fell to nine (just 2% of the total) -- the lowest number and percentage of Undervalued Blue Chips in our 30-year publishing history. Downside risks in the market are awesome. Nearly one-third of our listed stocks have downside potentials of 60% or more; 90% have downside risks in excess of 20%. Only 376 stocks have downside risk below 20%. This is a high risk market. Proceed with caution."*

The current issue of *Fortune* publishes this chart and comments, "If yields on 30 Treasuries drop to 6.5%, then the returns from stocks and bonds should be about the same, around 10%. But if rates rise, stocks will likely take a much harder hit than short or medium-term notes, and may even under-perform long bonds. The net: these days bonds offer the upside with much less downside."



When the yields on ten-year Treasury bonds are three times the dividend yield on stocks, as they are today, investors should be alert. It means stocks look expensive and bonds are good buys.

Russell Comment: Ten-year notes now yield about 6.70% as against about 2.2% for stocks. Thus "safe" bonds yield *three times* what stocks yield.

The "earnings yield" on the S&P 500 (earnings divided by price) has dropped below 5.00 to 4.98. This means that the earnings (not dividend) yield on stocks is well below the guaranteed interest return on long-term bonds. The differential is about 1.8% in favor of bonds. Thought: if a deflationary recession were to materialize (and, of course, that's an impossibility, isn't it?) bonds would look mighty cheap, and stocks would look mighty expensive.

Conclusion: The trend of the market continues UP. Day after day buying overpowers selling. Until that simple equation changes on a trend basis -- the game belongs to the bulls.

INVESTMENT POSITION: In the last Letter I placed a bull inside the question mark. In this Letter I've placed the bull next to the question mark, thus giving the bull equal weight. I still have questions. Despite the Transportation's failure to confirm and despite wild valuations, the Dow, the PTI and the A-D ratio are too strong to allow anything but an equal-sized bull in this box.

The outstanding characteristic of this market is the absence of selling pressure. Fear of the downside has all but disappeared.

Valuations for stocks are now beyond historic extremes, although leading Wall Street analysts are telling us that "this time things really are different," and that "the old measurements and gauges no longer apply." (I seem to have heard all that before.)

Stocks no longer provide any reasonable return on the investment. In other words, they are no longer "values." Therefore, you hold stocks on the premise that they will continue to go up. That ain't enough for me.

NOTES & QUOTES: Clinton keeps talking about how he's cutting the **deficit.** But if so, how come the national debt keeps climbing, climbing? Answer: much of the deception (which no politician of either party gets into) is based on government borrowing from trust funds. The facts: the latest report shows the US national debt at $5.234 trillion. Exactly one year ago it was $4.979. If my calculator still works, this means that we've added **$255** billion to the national debt over the past 12 months -- or at the rate of $1 trillion every four years. Of course, a major problem is that the massive interest on the debt continues to compound. Also, the Congressional Budget Office states that the federal deficit will drop to a low this year, then rise to $169 billion in 1997 and continue up to $212 billion by 2002. Which is why, in the end, this nation (remember my old warning?) must inflate or die. And you know something? I don't think politicians plan on dying.

AZ/SC THE WALL STREET JOURNAL I

Deficit Skeptics Say U.S. Budget Gap Is Really Much Wider Than Reported

By JACKIE CALMES
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON — For some suspicious Americans, there are lies, damn lies and government statistics on the budget deficit.

The deficit for fiscal 1996, which just ended Sept. 30, has been adjusted downward yet again, to $109 billion by the government is soaking up by its outside borrowing to meet obligations—savings that otherwise might be used for new investments.

But that's not to say the government's internal borrowing isn't a problem. It will be when trust-fund obligations come due, particularly when Social Security begins paying out far more to Baby-Boomer re-

* *

The various Dow formulas for "guaranteeing" profits (based, of course, on past performance) are proliferating. Original formula -- buy the 10 highest yielding Dow stocks, switching each year to the latest highest-yielding. Then a better formula -- buy just the FIVE

highest yielding Dow stocks. Now another new one -- buy the lowest capitalization stocks among the 10 highest yielders. **Russell comment:** When any system becomes too popular or too well known it usually ceases to be profitable. I think the various high-yield Dow formulas are becoming too popular. Be careful.

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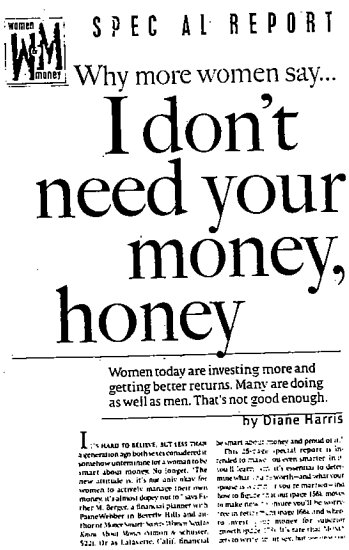
Interesting observation from Yale Hirsch of *Higher Returns* -- "With one exception, every re-election of an incumbent president in our nation's history since 1832 has been followed by a bear market!"

* *

Trends fascinate me. Or as Emerson put it, "Nothing is as powerful as an idea whose time has come." A current MAJOR trend, as I see it, is the *empowerment of women*. In every area of the developed world, from the US to France to Japan, women are gaining power. Maybe because I have four daughters, I've long wondered why women have accepted (or more properly been forced to accept) a life-position inferior to men. To me the answer is clear -- men are physically stronger. Aside from brute strength, for centuries women have been brain-washed by men. But all this is changing, and changing rapidly. In the US, women now outnumber men in both medical schools and law schools. That one fact is all you have to know if you doubt the above. Item: the film, "The First Wives Club" has been the "surprising" biggest grosser in Hollywood for three weeks in a row. Women by the tens of thousands have been lining up to see this "women getting even with men" movie. Women's rise to power -- it's happening. They're just not going to take it anymore. The clip above is from the latest *Money* magazine.



SPECIAL REPORT

Why more women say...

I don't need your money, honey

Women today are investing more and getting better returns. Many are doing as well as men. That's not good enough.

by Diane Harris

As far as the coming election, it's the women who are going to swing it -- for Clinton. And there's one simple reason -- Clinton is in favor of women doing what they want with their own bodies. As for Dole (despite his more liberal wife), women feel Dole is on the other side. That single fact, to my mind, could decide the election. It's ironic in a way, because you'd think women would despise Clinton, a man who's been endlessly unfaithful to his wife, a serial adulterer. But evidently women put the abortion issue far above fidelity. They know the abortion issue affects them personally, while infidelity, in this particular instance, affects only Hillary Clinton. It is said that "people vote their pocketbooks." Add to that, "Women vote their pocketbooks and their bodies."

* *

I watched both presidential "debates" in their entirety. My conclusion -- nothing's changed. Dole is sincere but inarticulate. And he always sounds as if he's "not quite with it." His responses are awkward, hesitating, and he often drifts off the subject. Clinton is smooth, repetitive, boring, talks endlessly about his highway to the 21st century. When faced with an accusation of sleaziness, Clinton totally ignored the comment (which he couldn't do in a real debate). **Russell conclusion** -- the nation is not at war, the economy is OK, the stock market is up. As long as those conditions exist, a sitting president will get re-elected. Is there anything that could help Dole? Yeah, two items: (1) A stock market crash; (2) Clinton facing an actual criminal charge. Otherwise, get ready for four more years of "the comeback kid." The only question at this point -- which party will control Congress?

* *

For me, the only candidate talking sense is Harry Browne of the Libertarian Party. Says Harry, "The simple fact that is obvious to all Americans is that government doesn't work. It can't deliver the mail on time, it doesn't keep our cities safe, it doesn't educate our children. Government doesn't work so we need huge spending cuts now. We need huge tax cuts now. We need a balanced budget now. Don't waste your vote -- if you want smaller government, vote for the one candidate who will give you a smaller government. If you want government out of your bedroom, your bank accounts, your life, there's only one lone choice -- the Libertarian Party. In fact during their debate, Dole admitted, 'Clinton wants to raise government spending by 20% over the next six years; I want to raise it 14%.' So I'm making this offer to the American public: would you give up all your favorite Federal programs, such things as farm subsidies, student loans, the Corporation for Public Broadcasting and other programs -- if it meant you never had to pay the income tax again?" **Russell comment:** I'd give 'em all up in a heart beat. To me, Harry Browne is the only candidate talking sense, talking the way the Founding Fathers would talk. But Harry is a thinker and the American people as a whole are not. Keep talking Harry, some day . . . maybe some day . . .

* *

Cars: In 1903 Ford turned out 1,300 cars. In 1908 Ford sold 11,000 cars. In 1913 Ford developed the revolutionary production line, which inaugurated the world's biggest manufacturing business. By 1927 Ford had sold 15 million model-T Fords and prices went as low (would you believe?) as $260. By the middle 1900s there were 2.6 billion people on earth and 50 million cars, trucks and motorcycles. Today there are a scary 5.5 billion people on the planets and 777 million vehicles. In developed nations 10% of all jobs are auto-connected. Car markets are now beginning to open in China, India, Latin America. The break-even income is $6,000 -- after that everyone wants a car. **ALL** the above from my old schoolmate, who writes the *Don Morris' Newsletter*, which is always information-packed and a pleasure to read [weekly at the bargain price of $50 a year; (800)441-9837].

* *

A new book, "Will America Grow Up Before It Grows Old?" by Peter G. Peterson, makes the case for bankruptcy unless the nation addresses its exploding entitlement expenses. For decades, this nation has been living beyond its means and borrowing the difference. Ultimately, we must face pay-back time, and this has to mean either (1) lowered living standards (I think that's already happening) or (2) a collapse in purchasing power as the dollar heads south, and the government pays off its liabilities with much cheaper dollars.

Now consider the following: Only 30% of American families save for the future at all, and among the 30% who are savers, the median amount saved is a mere $1,000. Furthermore, half of all adults in their late 50s have saved less than $10,000. You wonder whether the next recession and bear market could be a disaster? Believe me, the seeds of disaster are contained in this paragraph.

* *

EURO: Skepticism is evaporating regarding the single European currency which will be known as the Euro. It's going to happen. The Euro is likely to cause a multibillion dollar adjustment in world central bank reserves. Over time it seems clear that the central banks will move away from dollars and into the new Euros. As participating nations shift into the Euros, they will have to deal with their huge reserves of dollars. These conclusions are drawn from a number of official and private studies conducted by the European Commission and the US Fed. Studies estimate that the drop in demand for dollar reserves within the European Union could be as much as $200 billion around or after the introduction of the Euro. According to Michael Leahy, staff economist at the Fed, "It is argued that official dollar holdings could decline on the order of 35% or more from current dollar holdings." **Russell comment:** This whole picture is an obvious longer-term negative for the dollar, at least as far as the foreign exchange markets are concerned. Germany, the world's bastion against inflation, will exert a major influence on the Euro, and Germans (and probably most European nations) will want a strong European currency. Furthermore, there is Euro-pride. Europeans would love to possess the world's strongest and most wanted currency; they would also like to be rid of their dependence on the dollar as a reserve currency (the dollar's long-term performance against the D-mark and the Swiss franc has been disastrous).

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Internet: There are complaints coming in from non-Americans regarding the Internet. The complaint is that most of what's

happening on the Net is in English, and they don't speak English. Of course a bigger problem is one that the Soviet Communists had to face when it came to computers. The problem is that the Internet offers free information to the world. The October 8 *NY Times* featured an article which headlined, "With Mixed Feelings Iran Tiptoes to the Internet." Iran's problem is whether to fall still further behind in the world struggle for power and prestige. The pressure is on in Iran for access to the Internet, but the government is pursuing a policy of screening thousands of web sites and deciding which ones are deemed unhealthy for the populace. It won't work, at least not for long.

* *

Hollywood: Insiders in Tinseltown say that if Bruce Willis agrees to a fourth "Die Hard" film, he'll receive an unprecedented $35 million -- plus a percentage. In the meantime, John Travolta has signed to do four more films at a cool $20 million each. Competition is severe in the film business, and producers will pay almost any price for what they think is a guarantee of success. Can super-stars guarantee success? Sadly, the answer is no. As every producer knows, there's nothing like a great script. Note: the price of film studios has come down sharply. Suddenly, nobody wants to buy them.

* *

Main Street Finds Gold in Urban Crime Wave

■ Once-struggling rural America sees economic salvation in one of the nation's fastest-growing, most recession-proof industries—prisons.

By DAVID LAMB
TIMES STAFF WRITER

CAMERON, Mo.—At a topping-off party for Cameron's nearly completed new industrial plant—over a long buffet table loaded with ribs, cured ham and smoked tur-

You want a real growth industry? Here it is. The US is building **prisons** at a rate never before seen -- 123 state and federal prisons opened or were under construction in 1996. The surprise -- 25 years ago rural towns found the idea of a prison in their territory so repellent that they would sue their state government to keep them out. Then recession hit the farm belt towns, and the rise of crime became a bonanza for many smaller towns. Towns from Florida to California vied with each other for prisons, offering free land, tax breaks and cash incentives to get a piece of the prison-boom, more jobs and the big green that a prison brings to a community. **Russell comment:** At least 60% of all incarcerations are drug related. America's losing war against drugs has also become unbelievably expensive. Yet, there is little or no discussion of alternatives. As long as there is ignorance and a thirst for drugs, there will be suppliers and pushers. Keep building those prisons, guys -- it's the never-ending story.

* *

Twenty-five years ago this month an invention emerged which changed the world; it was the invention of the microprocessor (chip) on November 15, 1971. This was a full 25 years after ENIAC, regarded as the first electric computer. ENIAC had 18,000 vacuum tubes packed into 3000 cubic foot of cabinetry. Then came 1971 and the whole ENIAC thing was condensed into a single chip that measured less than a square inch. This first "chip" was developed by Intel. How did it happen? Busicom, a Japanese company asked Intel to design a chip set for a family of programmable calculators. Intel (boy, was this a brilliant move) bought the design (the 4004 chip) from Busicom by way of simply returning Busicom's original $60,000. That $60,000 gave birth to a multi-billion dollar business. Today Intel's fastest pentium chip (containing 5.5 million transistors) is 2,000 times faster than the original 4004. *Popular Mechanics* magazine rates micro-processors as the most important invention of the twentieth century -- the others: radio, TV, the computer, the transistor and the integrated circuit.

* *

PCs have now taken over from most of the huge mainframe computers. But wait -- not entirely. For instance, the control center that handles traffic in and out of O'Hare, the nation's busiest airport, had its 9020 installed back in 1974. This old mainframe has only 128NKB of memory (many of today's home PCs have more than 100 times that amount). One reason the old mainframes are still in use -- the software works well, even if the mainframe itself breaks down. But upgrading these systems can be a giant, expensive headache, running billions of bucks over budget and years behind schedule.

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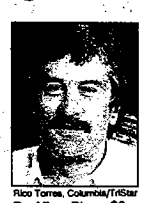
Wife Faye has a five day legal seminar in NYC at the end of this month, and I'll be joining her for three days over the weekend. Back to NYC. What I miss most in Gotham is 52nd Street, when during the late-'30s and '40s it featured a line of clubs featuring the best jazz of the century. Another place I used to go up to was Minton's in Harlem. When top musicians finished their regular nightly sessions, they would go to Minton's to listen to each other and jam the night away (the sessions would usually start around midnight). I would sneak out of the house around 11:30 PM with a few buddies, take the subway to 125th Street in Harlem, and trot over to Minton's where Teddy Hill (a former band leader and great guy) would greet us "white boys." There we would drink Cuba Libras and listen to jazz immortals like Art Tatum, Lester Young, Roy Eldridge, the young Dizzy Gillepsie (who idolized Roy), Oran "Hot Lips" Page, Charlie Christian (who shocked all of us with the first electric guitar), Billy Holiday, Lester Young, Thelonius Monk, etc. But what's this? Now Robert De Niro is going to re-open Minton's. And with a $3 million renovation! Gad, in 1942 you could have bought Minton's for probably around $5,000. So thank you Robert De Niro -- what a guy!

While in NYC I'll be bracing for the "Trumping" of the city. The "Great Builder" has dotted Gotham with Trump Plaza, Trump Parc, Trump Palace, Trump International Hotel and Tower -- and maybe his greatest creation, the (maybe) coming 8 million square foot Trump Boulevard (retail space, commercial, residential overlooking the Hudson River).

De Niro invests in Harlem jazz club

Robert De Niro plans to open a restaurant and jazz club in the heart of Harlem.

New York State development officials Monday approved $300,000 in low-interest loans for the actor's planned $3 million renovation of Minton's Playhouse.



Rico Torres, Columbia/TriStar
De Niro: Plans $3 million renovation

lem musical history.

During its heyday in the 1930s and '40s, Minton's Playhouse showcased jazz greats **Charlie Parker, Dizzy Gillespie** and **Thelonious Monk.**

The club, at 118th Street and Seventh Avenue, is expected to reopen in about a

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Money: The new *Forbes* list of America's 400 richest is out. The average wealth of the 400 is $1.2 billion. Of the 400, 113 inherited their wealth -- most of the others made it the hard way, they used their brains and persevered. There are 43 newcomers to the list or as *Forbes* puts it, "Forget about America's 50 families. Forget old money. Forget silver spoons. Great fortunes are being created almost monthly in the US today by young entrepreneurs who hadn't a dime when we created this list 14 years ago." **Russell comment:** Hey, this is America, where any man (or woman) can be president or make a billion. More statistics: you have to be worth $415 million to make the 400 list, a mere $75 million over last year. Sumner Redstone (Viacom) lost the most money last year -- $1.4 billion. Bill Gates picked up the most, $3.7 billion via his stock in MSFT. Interesting ads in this issue of *Forbes*: two Trump ads (are we surprised?), Lee Teng-Hui, President of Republic of China (turning capitalist?), Taiwan with a big 7 pages of ads, Power Bars (candy for power people), Beverly Hills (it loves millionaires), Range Rover (a power car for power people), ALVA (jewelry, telling us that rubies are more expensive than sapphires), AIG (one of Russell's very favorite stocks; it's a reinsurance company). A final interesting fact -- 10 of the "richest" on this list died this year. Their ages at death were 71 to 97. Conclusion: All died at over 71 -- the rich (maybe because of good medical) tend to live longer.

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Microsoft continues to be hated and under attack by other software companies. At the big (5,000 attendees) meeting in Disney World's Dolphin Hotel, all the top computer and software

companies were there. Said one, "Every time Bill Gates talked, you could hear teeth grating." From *USA Today*, "This was not a Microsoft-friendly conference, and that reflects a wider fear and loathing of the software giant. Barksdale (Netscape, CEO), who is warring with Microsoft over control of the Internet browser market, launched a number of barbs at Gates, usually to the applause of the audience . . . On another panel, Apple Computer CEO Gil Amelio asked corporations to make sure 20% of their personal computers are anything but Windows-based machines, just to keep Microsoft from crushing every other player, including Apple."

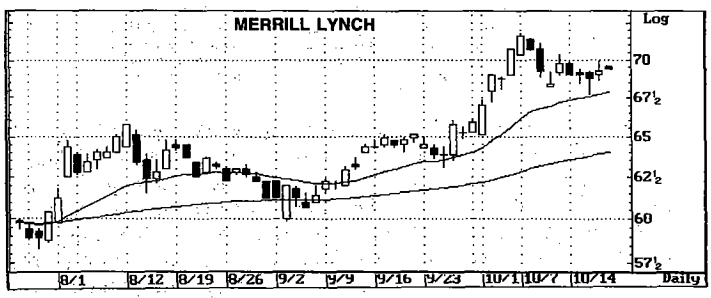
SIGNIFICANT CHARTS: Are there any "key" individual stocks that may provide hints as to the underlying or next direction of the market? Ah, if we could find the one or two it would be like finding the pot of gold at the end of the rainbow.

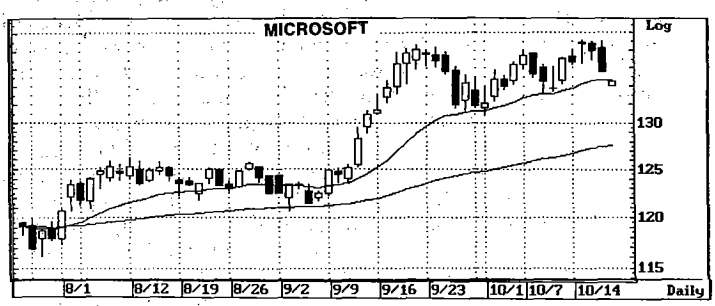
When I first started in this business, the key stocks were GM and US Steel. "What's good for General Motors is good for the country," and "As steel goes, so goes the country." Those were the themes, but you don't hear them anymore.

If I had to pick two key stocks today I'd pick Merrill Lynch and Microsoft. Merrill because it has a huge customer base, and because brokerage stocks are extremely sensitive to coming trends in volume and profits. I'd pick MSFT because it's unquestionably the leading software, Internet-related, colossus in what you might call the "new technology industry." Let me put it this way -- if you're looking for hints of trouble in this market, you might well watch MER and MSFT. If they're in trouble, the market's in trouble (and probably the economy as well).

Turning to the charts, MER hit a record high (October 7) of 71 3/4. Its 34-day moving average comes in at 67 1/2. Below 67 1/2 would be the first indication of trouble. That hasn't happened yet.

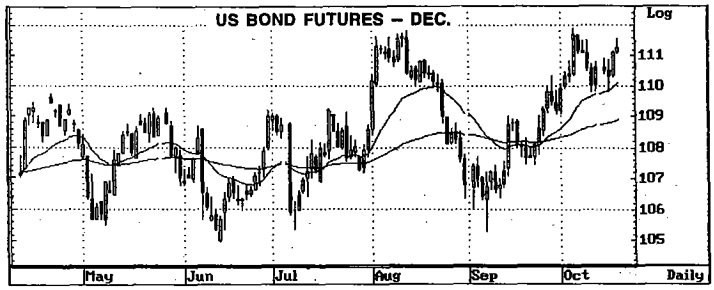
MSFT hit a high on October 15 at 139 1/8. Last week it broke slightly below its 34-day MA at 134, but you have to give this high-price stock more room. I'd say that MSFT below 130 would be a strong indication of trouble. That hasn't happened yet.

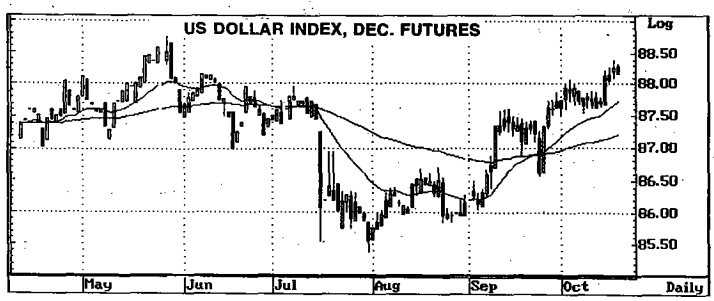




A major fuel behind the market advance since September has been the bull move in bonds. This chart shows the bond action. Strong downside support has come in at 105 (December futures), while resistance shows up at 112. As this is written, the bonds are knocking at the 112 roof. Bettering 112 would be an obvious plus for the stock market. On the other hand, the market would not take kindly if the Dec. futures break below 110.

Another plus for the market has been the rise in the dollar since August. The Dollar Index is heavily weighted by the D-mark and



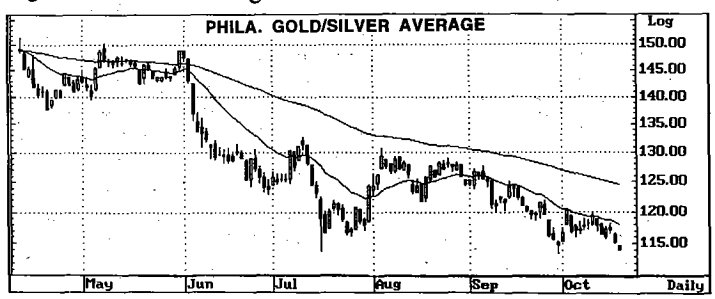


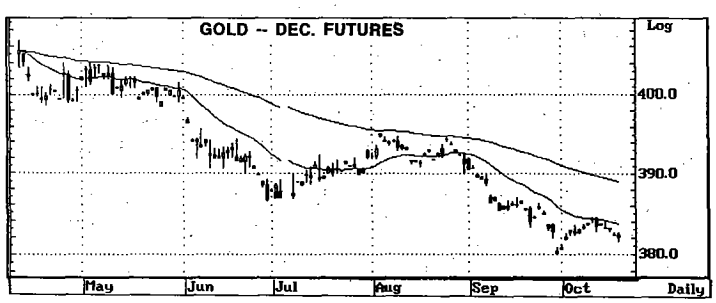
the yen. Any stock market likes a strong domestic currency, and the US stock market is no different. As long as the Dollar Index (Dec. futures) remains above 87 1/2, it's safe to say that the dollar continues strong.

GOLD: Sad to say, the Phila. Gold/Silver Average has broken to a new low below the 115 level. With gold standing still, there's just been little incentive to buy the gold shares, and the XAU reflects it.

Gold (the metal) has not confirmed the new low in the XAU. On September 30 the Dec. gold contract broke to an extreme intra-day low of 380. It rallied off that low, stopped at its 34-day MA, and drifted lower. We'll just have to see whether 380 holds.

My Gold-Primary Trend Index (not shown) has broken to a new low. One of these days, it going to make a final low. Until then, gold remains in the negative column.





LATE NOTES: Spoke to Bob Prechter Sunday (see his Letter on page 57 of this week's *Barron's)*; his work shows the bull is about to keel over. **Russell warning:** I always watch a brilliant analyst who's been wrong over a period of time -- he's close to being right (although, ironically, he'll also be dis-believed). Market psychology now unbelievably bullish, IPOs selling by the carload. However, many smaller, non-Dow stocks stalling. Sensational op-ed piece in the Oct. 21 *WSJ* concerning possible indictment of Hillary (after the election, of course). Watch Susan McDougal sweat (or talk?), as she waits for the presidential pardon that may never come.

NEXT MAILING: Nov. 6, 1996